

OPEN MEMO TO OUR INVESTORS, PARTNERS, AND FRIENDS

Our investors have requested that the Company provide a detailed update of operations and concepts behind our plans for Tri-Way Industries, Ltd. There are many moving parts to our operations, and this memo is intended to correct any misconceptions that may have arisen recently. We are happy to provide this information and hope it will inform appropriately.

Response to Undercurrent News Articles

Two articles recently published by *Undercurrent News* suggested that the lack of freshwater prawn (*Macrobrachium rosenbergii*) production at our Zhongshan facility, Aquafarm 4 (also known as AF4 or Megafarm) is due to problems with our prawn technology and over-exaggeration of its potential impact. One of the articles claimed that choices of fish currently being raised at the farm are not economical.

Nothing could be further from the truth. The fact is we decided to delay commercial prawn production at AF4 until proper funding was in place to finish the facility and tanks, and install the boiler and water pre-treatment systems as originally designed. These are needed to replicate the optimum water quality and year-round rearing temperatures for prawns that currently exist at our Enping facilities (AF1 & AF2), where the technology for prawns was developed and where proof-of-concept was confirmed before proceeding with large-scale plans.

These are not problems with our technology to culture prawns, but necessary for operation of the indoor RAS system at AF4 as originally designed. Since completing the construction of buildings 1 and 2 of Phase 1 at AF4, we have been above board about these issues in reports and conference call sessions with investors. The primary issue is and always has been the lack of funds to complete the facility. Our decision to not proceed with commercial prawn production at AF4 was to ensure the technology would be successfully implemented, as planned.

The production technology for prawns and projections for the future are based on replicated data we obtained and extrapolated for AF4 during our proof-of-concept phase at AF1 and AF2 between 2011 – 2015. The production volumes achieved at these farms for prawns is a matter of public record in our SEC filings. Among the many water quality advantages of RAS, another key reason for the ability to obtain higher production harvests than in ponds for this species is the use of stacked refuges in tanks, which has also allowed us to raise prawns to at least 2 meters in depth.

We believe additional research at AF4 will help us extend the boundaries of what has been achieved al-



ready at Enping as explained below. This additional research was misrepresented in the article as resolution to problems, instead of opportunities to improve.

During the ongoing interim funding period, we wanted to test different fish species in our modules to provide preliminary information on their suitability for the marketplace (see species-specific economic justifications presented below). The modules were not being used as designed for production, but as a holding facility and nursery prior to final stocking of these animals in grow-out ponds, and for some species to test high-density culture and produce higher-grade sashimi products. This was done with the added goal to provide some cash flow from AF4, until loan approval for the build-out funds is achieved. There is great potential for the species we have chosen to pursue recently, further explained in the details below.

It is important that our investors and partners appreciate the market-driven approach we take to meet our production targets, and also the robust and growing market that exists in China. We are not wedded to or focused on one species in our production mix, and will adjust species composition to meet profitability targets, as we have often demonstrated. The Company employs different strategies, such as depuration (e.g., purging of off-flavors) or slotted grow-outs (e.g., raising fish of different sizes to only a slightly larger size) to gain profit and have high throughput. Our RAS system is sufficiently robust to accommodate a wide range of species and strategies, and with the addition of saltwater at Zhongshan, a potential mix now of both marine and freshwater species. This includes lower-salinity RAS culture of the Pacific white shrimp (*L. vannamei*), which we had not considered previously in our freshwater systems. We are already converting ODRAS ponds to white shrimp production at our other sites, with water amendments needed for lower salinity culture. Careful consideration of markets, species mix, biology, and biosecurity requirements will lead us to always seek optimum profitability.

Upon loan approval, we plan to complete Phase 1 at AF4 with all needed components and build ODRAS ponds and next generation GODRAS ponds for production of Pacific white shrimp (*L. vannamei*) and other species. This is a conservative approach, less expensive than APM buildings, which will increase cash flow and allow profits to be generated to continue build-out of the entire facility, Phases 2 – 3, as originally planned.

Nevertheless, and despite a constriction of funds, we do currently plan to retrofit 18 tanks (3 x 6 tank Stage 1-Stage 3 grow-out) in Building 1 so our research team at Zhongshan can further advance the current state of our technology for prawns under non-ideal, but replicable conditions. This research includes, but is not limited to: balancing microbial communities; testing alternative approaches of all male or all female populations; alternative culling approaches and water movement designs to reduce electrical costs; and mid-range salinity trials with Pacific white shrimp. We also plan to convert tanks to raising Pearl Grouper as explained below.

A longer-term goal is potential for development of a pedigreed selective breeding program for targeted, signature species to produce lines specifically suited for higher density culture in our RAS system design and approach. Selective breeding is a common, signature approach used in animal agriculture to improve production; an approach we deem additionally beneficial because of the lack of such pedigreed programs in China, especially for prawns or marine shrimp. We will continue to strive to improve our technology and stay on the leading edge of development to maintain our competitive advantage. The immense potential of prawn and white shrimp markets in China warrants our concerted attention.

We fully support responsible, honest, knowledgeable, and objective journalism. Our results speak for themselves; we will invite other third parties to critique our operations at Phase 1 once commercial production is in full swing. We regret any unwarranted confusion or concern this article may have generated among our investors, partners, friends, and colleagues.

Potential for Different Species

We believe that many fresh and saltwater species can be grown commercially in our APRAS (or APM farms) and be profitable. This is mainly because of the suitable demand environment prevalent and growing rapidly in the Chinese market. To be commercially successful, the following fundamentals must be observed, structured, organized and managed effectively and efficiently:

- Knowledge of the Chinese markets: This includes knowledge of sales impact of each juvenile stage, including fingerlings (young fish) and postlarvae (young shrimp & prawns), sales of animals under market size, sales of market sized animals, and others, and their respective live, fresh chilled and frozen market demands. Sales of individual species need to be mapped and managed, accordingly,
- Know-how and expertise on each individual species: This covers each developmental stage from hatchery (broodstock and larvae), nursery (youngest juveniles), and growing out juveniles to marketable size in both in open dams (ponds) and APRAS tanks.
- Vertical integration of farms: Inclusive of open dams and APRAS farms, to implement grow-out programs: Our integrated organization collectively aims to reduce risks through implementation of a robust organization-wide biosecurity program, coordination of times to transfer and grow-out animals, and calculation of profit generation at each stage of grow-out (from juvenile, early and middle stages of grow-out to final stages of grow-out).

For instance:

(i). Our APM farms handle and manage the production of juveniles to be supplied to our subcontracted farms as well as to external farmers to obtain economic benefits and efficiency.

(ii). Our subcontracted farmers or part of our open dam (or ODRAS) farms will grow and produce fish up to 200g / fish from fingerling (Stage 1 grow-out) and up to 350 g /

fish from 200 g fish (Stage 2 grow-out) with each stage to obtain economic benefits and efficiency, independently.

(iii). Finally, our APM farms will produce the fish to final market sizes, also striving to obtain economic benefits and efficiency.

During 2017 (Q1 to Q3) we managed to organize enough Stage 1 and Stage 2 growers (or sub-contracted farmers including growers in our open dam farms) to support FF1 (AF1) and PF1 (AF2) in the final stage's grow-out of Pearl Grouper and Jade Perch. We are still organizing Stage (1 & 2) growers in AF4 & AF5's open dam property (of 800 Mu). If all moves effectively we aim to organize enough production to support 12 APM units in AF4 to start the final staged grow-out of Mandarin Fish starting from Q2 2018.

- Ongoing services: Provide each segment of operation with support, techniques, services, supervision of technology, veterinary, R&D, information and associated necessities.

The Economics of Selected Fish Species

We selected three species of freshwater fish as key targets to be grown commercially in 2017 and 2018 at the existing farms described below. There are strong economic reasons to choose these species as explained in the following:

I. Mandarin Fish or Chinese Perch (*Siniperca chuatsi*)

A very popular high demand fish, consumed in nearly all provinces of China, with daily domestic consumption of over 500 MT per day (~ 200,000 MT per year) in live form and excluding value added forms. This fish has a stable wholesale price in 2017, averaging RMB 50 / Kg (or US\$7.70 / Kg) ex-farm. We are doing a little better than that at an average of RMB56 / kg because our fish are being sold to retailers as well as wholesalers and distributors.

At the same time, our qualities are marketed as superior being free of antibiotics, undesired chemicals, and grown in a pollution-free environment. These are key marketing characteristics because:

- In China, most Mandarin Fish are grown in untreated (often highly polluted) waters in open-dam farms and fed with live bait fish that are themselves full of antibiotics. The bait-fish also contain potential human disease vectors because most are fed, or waters fertilized, using pig and chicken wastes collected from nearby farms.
- During 2017, AF4 successfully introduced and fed the Mandarin Fish in our APM tanks with specially designed feed pellets that fish readily accepted. We also supplied (and sold) Mandarin Fish fingerlings (from 3 cm to 6 cm) to our subcontracted growers as well as other external growers/clients with good results. As a result, we are confident that our operations will successfully culture Mandarin Fish.

In 2017, we were able to successfully achieve stocking densities up to 60 kg / m³ of water of larger sized fish in our APM tanks. We feel confident we can grow and produce 12,000 pieces of fish (to 0.5 kg each) or 6 MT per tank from Stage 2 animals stocked at an average of 0.35 kg

/ fish per cycle. Each cycle is an average of 30-days.

The key point is that our APM units' productivities are variable subject to: (i) the initial species and developmental stage being stocked; (ii) the optimum growth rate of the animals and biological limits; (iii) how well the supporting supply chains from Stage 1 & Stage 2 growers are organized to maintain continuous supply.

In an operational coordination scenario with Mandarin Fish, if we are to stock the 14 APM units (or 28 tanks) at AF2 with 350 g animals, then the farm's annual production can be over 2,000 MT. This is double the farm's originally designed capacity of about 1000 MT per year.

The production cost of growing Mandarin Fish to 500 g in APM tanks is an average RMB 24 / kg. Profits generated at this stage are reduced to 24% of sales price (56 RMB) to account for the cost of seedstock purchased from Stage 1 and Stage 2 growers. However, since the APM farm produces the fingerlings sold to growers (at RMB 4 / 3 cm fingerling to RMB 6 / 6 cm fingerling), with a gross profit margin of 50%, the overall profit margin for the APM farm of growing Mandarin Fish is 30%.

This means that for the AF2 example of 28 APM tanks, annual sales for growout of Mandarin Fish could be RMB112 million (or US\$16.7 m), with a gross profit of about US\$ 5 million.

2. Jade Perch (*Scortum barcoo*)

Currently, a large demand for Jade Perch does not exist in China (estimated at about 10,000 MT / year). Nevertheless, we are confident of developing our Jade Perch gradually into a desirable and viable commercial species for the following reasons:

- It is a fish exceptionally suited and easy to grow in our APM farms, with fast growth rates and higher stocking densities than have been obtained for the Mandarin Fish. We have been successfully stocking up to 75 Kg / m³ at our AF1 and AF2 during the past months. That effectively translates into an annual production of 90 MT per tank (collectively from 12 monthly cycles) with the initial stocking of 350 g fish. As an example, again using AF2 with 28 tanks, annual production could reach 2,500 MT which is 2.5 times greater than our originally planned annual production capacity.
- Jade Perch, compared to some other freshwater fish species, contains very high levels of omega-3 fatty acids, the highly unsaturated derivatives of which (called HUFAs), EPA and DHA, are known to be beneficial for human health and nutrition. While the fatty acid composition of fish flesh is primarily dependent upon the fatty acid composition of their diet, there is some evidence to suggest that Jade Perch can concentrate or retain high levels of HUFAs in their flesh fed high HUFA and omega-3 fatty acid diets, and may require higher basal levels of HUFA or omega-3 fatty acids in their tissues compared to other freshwater species. Many freshwater fish, like salmon and Murray cod, have ability to convert dietary omega-3 fatty acids into DHA and EPA in their bodies to varying degrees, although this is not yet demonstrated for Jade Perch. In contrast, marine fish do not have this ability, and must obtain all their required HUFAs from their diet. Favorable marketing of high HUFA content in Jade Perch can be accomplished by feeding finishing diets high

in omega-3 fatty acids and HUFAs.

- Purchased fish grown in our clean-water APM farms are cleared (or depurated) from any prior antibiotic and undesirable chemical treatment, and off-flavors (earthy or muddy taste). This enhances superior quality as compared to Jade Perch grown elsewhere in China and provides key benefits for the marketing of our Jade Perch.
- Strong financial performance, (again using AF2 as an example):

The overall cost to grow Jade Perch to an average 500 g is RMB18 / Kg (inclusive cost of purchased juvenile, feed, mortality and supplementary feed, etc.). The average of wholesale price at the Guangzhou wholesale markets in 2017 was RMB39 / Kg ex-farm (or US\$6 / Kg). We achieved an average sale price of RMB43 / Kg (or US\$6.6) from our APM farms (average of that sold to wholesalers, distributors, and retailers). Gross profit from our APM farms after allocating profits to Stage 1 and Stage 2 Growers is about RMB 17 / Kg, including gross profit derived from fingerling sales. This represents an overall gross profit margin of 39.5% ($\sim 43 - (18 + 17) / 18$). Annual sales of the exemplified AF1 = RMB107.5 m (or US\$16.53 m), with a gross profit of US\$6.53 m.

3. Pearl Grouper (*Epinephelus lanceolatus* x *Epinephelus fuscoguttatus*)

Pearl Grouper (PG) is a well-developed species of fish in China's Hainan Province that also enjoys good demand in the Southern part of China (estimated current annual sales of 30,000 MT in the Guangdong wholesale markets), at attractive yearly wholesale average prices of RMB 76 / Kg in 2017. PG is a hybrid cross between two different species, hence the bifurcated scientific designation.

Throughout 2017, we managed to develop growers in Hainan to support the production of PG at our APM farms with Stage 1 and Stage 2 stocks. We have already stocked PG in 4 APM units (or 8 APM tanks) in AF1 and plan to do additional stocking in another 14 APM units (or 28 tanks) at AF4 within Q1 2018. Several advantages are clear with PG:

- It has a very fast growth rate. We can reach 600 g fish (from 350 g fish) within one month at our APM farms.
- Our team has good experience in growing PG. We have already achieved a stocking density of 60 kg / m³ at AF1, or 6 MT / tank per monthly cycle, or the equivalent of 72 MT / tank / year
- Cost of grow-out is averages RMB 30 / kg. This results in a gross profit of RMB 46 / kg, again distributed between Stage 1 & 2 growers and our APM farms. This results in a net 32% gross margin for our APM farms.
- To illustrate for AF2 (based on 28 APM tanks):

Annual Production = 2,000 MT

Annual sales revenue = RMB152 million (or US\$23.38 m)

Gross Profit = US\$7.48 m

- During 2017 we also discovered that there is good market demand for smaller-sized PG (between 300g / 350 g fish) at the Freshly Chilled wholesale markets of Guangzhou City that we intend to explore during Q1 2018.

Description and Current Status of Tri-Way Industries, Ltd. Farms

Aquafarm 1, located in Enping City, is the first A-Power Module (“APM”) farm established and developed by Capital Award, Inc. (“CA”), applying our *A-Power Recirculating Aquaculture System* (“APRAS”) technology in 2010. Commercial operations began in 2011. AF1 has 16 APM units in operation with each APM having two production tanks (with each tank containing 100m³ working water volume) and a central filtration baffle system which is 12m x 1m x 2.2m = 18m³ working volume.

AF1 was the only farm belonging to Tri-way Industries, Ltd. prior to the addition of all of the other farms, listed below.

AF1 was remodeled and renovated during 2016, which caused down time that reduced production in 2016. Production levels returned to normal by Q3 2017.

Aquafarm 2 is another APM farm also located in Enping City, approximately 3 km from AF1. AF2 started commercial operations in 2014. AF2 has 14 APM units, each with two production tanks (measuring at 6m x 12m X 2.2m depth = 100m³ working volume) and a central filtration tank of 18m³. AF2 has two main functions, with several sub-activities:

1. Research & Development work on the RAS technology, as well as production and grow-out
2. Production of multiple species of fish and prawns.

Production was interrupted and reduced during 2016 while it was being refitted to incorporate R&D activities. Production is back online since Q2 2017.

Aquafarm 3a is located in Sanjiao Town, Zhongshan City. The major activities at AF3a are hatchery production of prawns and shrimp, along with minor production and growing of fish and prawns/shrimp in open dams (referred to as Open Dam “ODRAS”). Open dams occupy just over 153 Mu on AF3a’s main property. An additional 250 Mu of ponds are situated on contracted/ leased land adjacent to the main property.

Construction and development of AF3a started in 2012; completion by 2018 is contingent on sufficient development funds. Alternatively, organic growth could occur through generated profit and be completed by 2019. Hatchery and pond production has been ongoing since 2013 at existing facilities.

Of the 153 mu on the main property, 30 mu is occupied by the hatchery for prawn and shrimp postlarvae production, 20 mu is under 3rd Generation ODRAS production that was retrofitted in late 2016 with operation starting during Q3 2017, 30 mu is being reserved for the development of additional hatchery and nursery capacity for prawns and shrimp, and the remaining 73 Mu is currently operating using 2nd generation ODRAS technology.

Aquafarm 3b, also located at Shenwan, Zhongshan City, is operated by Aquafarm 3a. AF3b comprises over 579 Mu of traditional open dams in operation since 2014. We plan to develop a farmers' production cooperative, employing an additional 2000 Mu by year end 2019. A small cooperative, recently established, targets 250 mu of traditional dams being employed by the end of Q3 2017.

In addition, 170 Mu of the noted 579 mu were converted into 2nd generation ODRAS in 2016, with operations beginning in Q4 2016.

Aquafarm 4 and **Aquafarm 5** are both located at Cuiheng, Zhongshan City on 3,750 Mu of land. AF4 occupies 80 mu and the majority of the construction of two out of three APM buildings was completed by Q3 2016. The third APM farm (out of a three building production unit) targets completion in 2018, subject to capital funding. Alternatively, it can be completed organically by 2019, depending upon results of production.

The two semi-completed APM buildings each are 9,000 m² in total footprint (7,590 m² interior). Trial operations began in Q4 2016, and semi-commercial operations in Q1 2017. The target was to reach annual production of 6,000MT by Q1 2018. Completion of the third building will bring total PF3 production to 10,000 MT by Q2 2019. Originally, it was planned to mainly produce giant freshwater prawns in AF4; however, we have delayed and revised those plans due to reasons previously noted (i.e., lack of funding to build water treatment facilities for incoming source water and outgoing waste water, the water-heating facility, the R&D and product quality control laboratories, lack of trained technical staff, the unfamiliarity of the project, and the inexperience of the existing management team on the operation of a RAS farm of this magnitude).

Nevertheless, as mentioned, we are able to use the facilities in a non-traditional way to test the feasibility of various species in APM tanks (i.e., Mandarin Fish, Jade Perch, Silver Cod, California Cod, and other species). This also allows cash flow generation until AF4 is properly completed to begin full commercial production of giant freshwater prawns.

Further, we plan to utilize the expertise of one of our AF4 farm managers to conduct hatchery production of fish fingerlings. Certain species of fish are in demand and can be produced and sold with good profitability. We market tested selling fingerling Mandarin Fish, Jade Perch and Silver Cod beginning in Q2 2017. As a result, a nursery is also planned to be built adjacent to one of the existing AF4 buildings during early 2018. First production and sales of fingerlings is targeted to begin in Q2 or Q3 2018, depending on available cash flow.

Major construction and development work has not started on Aquafarm 5, although some of the basic infrastructure work has been underway since Q1 2017. AF5 will occupy a total area of about 400 Mu, consisting of 18 APM buildings (six times the size of AF4 at completion) targeting annual production of 60,000 MT.

No further work is planned on AF5 until development funds are available.

Aquafarm 4a, comprising 400 Mu of traditional open dams was built during late 2016, and came into operation beginning Q1 2017. AF4a's production is included in total production numbers of Aquafarm 4.

Aquafarm 5a, another 400 Mu of traditional open dams, was built during Q1 2017 and came into operation beginning Q2 2017. AF5a's production is included in the total production numbers of Aquafarm 5.

The reasons for building traditional open dams at AF4a and AF5a include:

- (i). Traditional dams are much less expensive to build and can be built within a short period of time.
- (ii). Plenty of land was available and not being utilized at the Zhongshan site, making sense to employ while waiting for funds to develop the APM buildings.
- (iii). Traditional dams would increase sales revenues of PF3 & PF4 in the interim period.



Macrobrachium rosenbergii

Aquafarm 4b will be built on 150 mu with 3rd generation ODRAS beginning Q3 2017, with targeted production to start Q2 2018.

Third-generation ODRAS technology (dubbed GODRAS) is based on the basic RAS theory of our indoor APM systems, with a few construction-related differences. GODRAS technology employs outdoor open-dams serviced by centrally located filtration dams. All dams are connected, and water recirculated and recycled, with the filtration dams removing both soluble and insoluble wastes. GODRAS cost less to build than APM buildings but are similarly enclosed using a greenhouse that will have shading in the summer to keep dams cooler and plastic covers in winter to retain incident heat. GODRAS will particularly help in the outdoor production of Pacific white shrimp (*L. vannamei*) because of the use of recycled pond water with stable microbial communities, and organically enhanced biosecurity. Similar systems are being successfully employed by competitors for this species.

Additional Comments and Outlook for 2018

During fiscal year 2017 (from Q4 2016 to Q3 2017) there were many interruptions to farm operations (i.e. retrofitting of AF1, reorganizing AF2 to incorporate R&D activities, the retrofitting and rebuilding of 20 mu traditional open dams into 3rd GODRAS, and converting some 200 mu of AF1's Shenwan old dams into 2nd generation ODRAS). Despite these business disruptions, and together with the start-up issues at AF4, our overall fishery operation is, in fact, doing well. We were able to produce and sell just under 9,000 MT, which is below our original forecast of 12,000 MT. As our operational and financial situation improves, the outlook for 2018 will improve